THORNAPPLE KELLOGG SCHOOLS

Barry, Allegan, Kent and Ionia Counties, Michigan

Report on Financial Statements
For the year ended June 30, 2007

THORNAPPLE KELLOGG SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

YEAR ENDED JUNE 30, 2007

C O N T E N T S

C O N T E N T S

Maner, Costerisan & Ellis, P.C.
Certified Public Accountants

Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

October 4, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Thornapple Kellogg Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

544 Cherbourg Drive • Suite 200 • Lansing, Michigan 48917-5010 • (517) 323-7500 • Fax (517) 323-6346 • www.mcecpa.com

To the Board of Education
Thornapple Kellogg Schools

October 4, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2007, on our consideration of Thornapple Kellogg Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiii and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Thornapple Kellogg Schools' basic financial statements. The additional information on pages 30 to 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costerisan & Ellis, P.C.

Certified Public Accountants

Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2007

As management of the Thornapple Kellogg Schools ("the District"), a K-12 school district located in Barry, Allegan, Kent and Ionia Counties, Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Additional Information.

The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status. These statements present an aggregate view of the District's finances and a longer-term view of those finances.

- The remaining statements are fund financial statements that focus on individual parts of the District. These statements look at the District's operations in more detail than the district-wide statements by providing information about the District's most significant funds - the General Fund, 2006 Debt Refunding Fund and 2002 Capital Projects Fund, with all other funds presented in one column as Nonmajor Funds.

The fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Additional Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities and use the accrual basis of accounting. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

The relationship between revenues and expenses is the District's operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District's goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many non-financial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, State grants, and Federal grants finance most of these activities.

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants, though the District may establish other funds to help control and manage money for particular purposes. It may also establish other funds to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The fund level financial statements are reported on a modified accrual basis, which measures only those revenues that are "measurable" and "currently available". Expenses are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- Debt Service Funds - consisting of the 2002, 2004 and 2006 Debt Funds.
- Special Revenue Funds - consisting of the Food Service, Athletic, and the Public Library Funds.
- Capital Projects Funds - consisting of the 2002 Capital Projects Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future debt obligations are not recorded.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the District as a Whole

The following summary of net assets provides the perspective of the District as a whole as of June 30, 2007 and 2006, respectively.

	2007	2006	Percentage change
Assets			
Current assets	$ 9,217,282	$ 10,928,595	-15.66%
Deferred charges, net	729,642	638,423	14.29%
Capital assets	61,619,794	59,704,507	3.21%
Less accumulated depreciation	(12,680,389)	(11,085,741)	14.38%
Capital assets, net book value	48,939,405	48,618,766	0.66%
Total assets	58,886,329	60,185,784	-2.16%
Liabilities			
Current liabilities	5,294,985	6,288,179	-15.79%
Non-current liabilities	46,096,202	46,908,671	-1.73%
Total liabilities	51,391,187	53,196,850	-3.39%
Net Assets			
Invested in capital assets, net of related debt	3,566,079	2,796,321	27.53%
Unrestricted	3,929,063	4,192,614	-6.29%
Total net assets	$ 7,495,142	$ 6,988,935	7.24%

Capital assets net of related debt, $3.5 million, is the original cost of the District's capital assets, less depreciation plus remaining fund balance in 2002 Capital Projects Fund, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid from voter-approved property taxes collected as the debt and interest payments come due.

The remaining amount of net assets of $3.9 million was unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The Statement of Activities presents changes in net assets from operating results:

	2007	2006	Percentage change
Program Revenues			
Charges for services	$ 961,894	$ 999,583	-3.77%
Operating grants	1,245,047	1,259,484	-1.15%
General Revenues			
Propery taxes	5,645,908	5,324,163	6.04%
Interest earnings	115,902	122,055	-5.04%
State school aid, unrestricted	20,170,758	18,688,821	7.93%
Intermediate	1,379,374	1,225,157	12.59%
Other	249,917	143,676	73.94%
Total revenues	29,768,800	27,762,939	7.22%
Expenses			
Instruction	15,505,783	13,578,337	14.20%
Support services	9,425,827	8,909,163	5.80%
Community services	220,469	228,044	-3.32%
Facilities acquisition	42,824	-	100.00%
Food service	1,016,002	983,034	3.35%
Athletics	730,897	747,337	-2.20%
Public library	44,653	45,847	-2.60%
Interest on long-term debt	2,276,138	2,172,949	4.75%
Total expenses	29,262,593	26,664,711	9.74%
Increase (decrease) in net assets	506,207	1,098,228	-53.91%
Net assets, beginning of year	6,988,935	5,890,707	18.64%
Net assets, end of year	$ 7,495,142	$ 6,988,935	7.24%

Local property taxes and unrestricted state aid supported the majority of the governmental activities. The property tax revenue comes mainly from the 18 mills on all non-homestead property, which we are required to levy by the State in order to receive our full State foundation allowance. The District appreciates the support of the community in maintaining our facilities, as $3.5 million of the $5.6 million in tax revenue is generated by a debt millage specifically designated for future debt service.

Of the District's total revenues available to operate the District, a little over 3.2 percent or about $.96 million came from fees charged to those who benefited from the programs. Approximately 4.2 percent or $1.2 million of revenues came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

The expenses represent the financial support of each functional area required during the year. Being in the business of educating children, the largest expenses were incurred in Instruction, which accounted for $15.5 million or 53 percent of total expenses. Direct Support Services cost $9.4 million or 32.2 percent of all expenses, which includes such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of $506,207 or approximately 7.2 percent. The increase in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Thornapple Kellogg Schools' funds are described as follows:

<u>General Fund</u>
The General Fund is the principal operating fund. The General Fund had total revenues of $24,952,753, total expenditures of $24,042,021, and total other financing sources of $89,823 and uses of $485,000. It ended the fiscal year with a fund balance of $5,126,694, up from $4,611,139 as of June 30, 2006. The District's increased expenditures was primarily due to contractual increases in salaries, rising costs of health benefits and retirement, and some added staff to comply with the State of Michigan high school reform initiatives and enhancement of current educational programs. A portion of the increase in fund balance was due to receiving insurance proceeds in the current year and the related expenditure will occur in the subsequent year. The balance of the increase is a result of conservative budgeting. The fund balance is appropriately reserved and designated.

<u>2002 Capital Projects Fund</u>
The District's $24 million improvement project is funded by the bonds issued in November, 2002 and accounted for the 2002 Capital Projects Fund. Current year investment earnings totaled $127,489 and other financing sources of $345,000 with ongoing construction/equipment expenditures totaled $1,732,825 leaving a remaining fund balance at June 30, 2007 of $552,014 with which to complete the projects.

<u>2006 Refunding Debt Service Fund</u>
The District refunded a portion of the 2002 bond. The general obligation bonds were issued at a discount after paying issuance costs of $137,364. As a result of the advance refunding, the District reduced its total debt service requirements by $765,684, which resulted in an economic gain of $491,642 or 5.261% of the refunded principal amount.

<u>Nonmajor Funds</u>

<u>Special Revenue Funds</u>
The District operates three Special Revenue Funds, for food service, athletics and the public library. Total revenues were $1,155,782 and other financing sources were $485,000, with total expenditures of $1,634,584. The ending fund balances of each fund were Food Service of $1,382, Athletics of $26,717, and Public Library of $12,277.

Debt Service Funds

The District operates three Debt Service Funds for the 2002 bond issue, the 2004 refunding bond issue and the 2006 refunding bond issue. Total revenues were $3,523,040 and other financing sources of $10,466,120, with total expenditures of $3,882,325, and total other financing sources of $9,862,635. The ending fund balances in the Debt Service Funds totaled $700,203.

Fiduciary Funds

The Student Activities Fund and the Private Purpose Trust Fund are operated as fiduciary funds of the District. The assets of these funds are being held for the benefit of the District's employees and students. Balances on hand at June 30, 2007 totaled $278,072

General Fund Budgetary Highlights

	Original budget	Final budget	Actual	Variance with final budget positive (negative)	% variance
Total revenues and other	$ 23,900,044	$ 24,753,539	$ 24,952,753	$ 199,214	0.80%
Expenditures and other					
Instruction	14,253,441	14,361,544	14,285,132	76,412	0.53%
Supporting services	9,453,960	9,687,865	9,507,143	180,722	1.87%
Community services	256,774	227,775	206,922	20,853	9.16%
Facilities acquisition	-	15,500	42,824	(27,324)	-176.28%
Transfer	470,000	485,000	485,000	-	0.00%
Sale of school property/insurance	-	-	(89,823)	89,823	100.00%
	$ 24,434,175	$ 24,777,684	$ 24,437,198	$ 340,486	1.37%

Over the course of the year, the District revised the annual operating budget in March and June. The District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires the budget be amended to ensure expenditures do not exceed appropriations.

Major changes to the General Fund original budget were:

- The District's final, actual general fund revenues differed by $199,214 or .8 percent. The increase in actual revenues over final budget was due to underestimates in the State funding and receiving insurance proceeds earlier than expected.

- The District's final, actual general fund expenditures and other transactions differed by $340,486 from the final budget, a variance of 1.37 percent. The reduction of actual expenditures over budget was accomplished without cutting instructional programs.

Analysis of Financial Position

The District remains in stable condition as of June 30, 2007. Management continues to make conservative reductions of operating expenses in every possible area and increase revenues in appropriate areas as a contribution to costs incurred. Management also intends to utilize the remaining fund balance, as needed, to continue to fund quality educational programs and curriculum to comply with new State requirements during inevitable economic downturns in the future.

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the District had invested $61.6 million in a broad range of capital assets, including land, school buildings, vehicles, athletic facilities, technology equipment and software. This amount represents a net increase of $1.9 million or 3.2% from last year. (More detailed information about capital assets can be found in Note 4 in the Notes to Financial Statements.) Total depreciation expense for the year was $1,732,405.

The District's fiscal year 2007 capital budget projects spending another $1.3 million for capital projects, including, purchase of land, buses and technology equipment. The remaining fund balance of $.5 million is designated for the purchase of additional buses and to continue to update technology, equipment and furnishings in all instructional areas.

At June 30, 2007, the District's investment in capital assets (net of accumulated depreciation), was $48.9 million. Net book value of capital assets is detailed as follows:

	2007	2006
Land	$ 1,545,846	$ 745,000
Land improvement	1,406,232	1,435,671
Building and additions	44,107,883	44,965,975
Furniture and equipment	1,559,690	1,158,216
Vehicles	319,754	313,904
Net capital assets	$ 48,939,405	$ 48,618,766

Long-Term Debt

At year end, the District had $48.3 million in general obligation bonds and other long-term debt outstanding – a net decrease of approximately $.6 million from last year.

- The District continued to pay down its debt, retiring $11.6 million of outstanding bonds and capital leases.

- The District issued general obligation bonds of $10,000,000 to advance refund bonds with a higher interest rate.

- $105,118 was added to employee incentive programs during the year, and $194,576 of this liability was used/paid during the year.

The District's bond rating for General Obligation, Unlimited Tax debt remains "Aa3". The District's rating for General Obligation, Limited Tax debt remains "A1". The State limits the amount of general obligation debt that schools can issue to 15% of the assessed value of all taxable property within a district's boundaries. The District's other obligations include severance pay and accumulated sick leave. We present more detailed information about our long-term liabilities in the Notes to Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

We considered many factors when setting the District's 2007-08 fiscal year budget. One of the most important factors affecting our budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007-08 budget is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2007-08 fiscal year budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 75% percent of total General Fund revenues are from the foundation allowance. Under State law, the District cannot access additional property tax revenue for general operations. As a result, the District funding is heavily dependent on the State's ability to fund local school operations.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. Between fiscal years 2002-03 and 2004-05, base State funding was stagnate at $6,700 per pupil, and in two of those years the base State funding was reduced mid-year by Executive Order cuts. Fiscal 2005/06 was the first year for an increase and the foundation allowance was at $6,875 per pupil. This increase, combined with significant budget reductions, contributed to the financial success for that year. Funding levels for fiscal year 2006-07 increased $210 per pupil and was applied to the rising costs of health and retirement benefits for District employees. No increase is budgeted for the 2007-08 school year as the State's economy remains in crisis. At the time of this publication, the State of Michigan has not adopted a budget for its fiscal year beginning October 1, 2007. The financial stability of Thornapple Kellogg Schools may make a significant downturn if the State is not able to adequately fund school districts in the near future.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Thornapple Kellogg Schools, 10051 Green Lake Road, Middleville, MI 49333.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2007

		Governmental activities
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	$	4,401,846
Tax receivables		120,825
Due from other governmental units (Note 5)		3,537,925
Other receivables		99,721
Prepaid expenses		408,212
Inventories		12,927
Restricted cash and investments - capital projects (Note 3)		635,826
TOTAL CURRENT ASSETS		9,217,282
NONCURRENT ASSETS:		
Deferred charges, net of amortization		729,642
Capital assets (Note 4)		61,619,794
Less accumulated depreciation (Note 4)		(12,680,389)
TOTAL NONCURRENT ASSETS		49,669,047
TOTAL ASSETS	$	58,886,329
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$	451,822
Due to other governmental units		550,428
Accrued interest		300,935
Accrued payroll and withholdings		1,665,044
Deferred revenue		70,286
Current portion of compensated absences and early retirement (Note 6)		46,470
Current portion of long-term obligations (Note 6)		2,210,000
TOTAL CURRENT LIABILITIES		5,294,985
NONCURRENT LIABILITIES:		
Bonds payable, less current portion (Note 6)		37,240,954
Compensated absences and early retirement, less current portion (Note 6)		511,174
State school bond loan payable (Note 6)		7,576,332
State school loan revolving payable (Note 6)		767,742
TOTAL NONCURRENT LIABILITIES		46,096,202
TOTAL LIABILITIES		51,391,187
NET ASSETS:		
Invested in capital assets, net of related debt		3,566,079
Unrestricted		3,929,063
TOTAL NET ASSETS		7,495,142
TOTAL LIABILITIES AND NET ASSETS	$	58,886,329

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	$ 15,505,783	$ -	$ 868,933	$ (14,636,850)
Support services	9,425,827	-	6,928	(9,418,899)
Community services	220,469	179,148	-	(41,321)
Facilities acquisition	42,824	-	-	(42,824)
Food services	1,016,002	614,533	357,532	(43,937)
Athletics	730,897	132,692	-	(598,205)
Public library	44,653	35,521	11,654	2,522
Interest on long-term debt	2,276,138	-	-	(2,276,138)
Total governmental activities	$ 29,262,593	$ 961,894	$ 1,245,047	(27,055,652)
General revenues:				
Property taxes, levied for general purposes				2,122,868
Property taxes, levied for debt service				3,523,040
Investment earnings				115,902
State sources, unrestricted				20,170,758
Intermediate sources				1,379,374
Other				249,917
Total general revenues				27,561,859
CHANGE IN NET ASSETS				506,207
NET ASSETS, beginning of year				6,988,935
NET ASSETS, end of year				$ 7,495,142

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General fund	2002 Capital projects	2006 Refunding debt service	Other nonmajor governmental funds	Total governmental funds
ASSETS					
ASSETS:					
Cash (Note 3)	$ 3,666,560	$ -	$ 228,798	$ 506,488	$ 4,401,846
Taxes receivable	83,900	-	5,466	31,459	120,825
Due from other governmental units (Note 5)	3,517,497	-	-	20,428	3,537,925
Due from other funds	6,200	-	-	5,850	12,050
Other receivables	99,721	-	-	-	99,721
Prepaid expenses	408,212	-	-	-	408,212
Inventories	-	-	-	12,927	12,927
Restricted cash	-	635,826	-	-	635,826
TOTAL ASSETS	$ 7,782,090	$ 635,826	$ 234,264	$ 577,152	$ 9,229,332
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	$ 356,018	$ 83,812	$ -	$ 11,992	$ 451,822
Due to other governmental units	517,627	-	4,225	28,576	550,428
Due to other funds	5,850	-	-	6,200	12,050
Accrued payroll and withholdings	1,658,328	-	-	6,716	1,665,044
Deferred revenue	117,573	-	616	12,512	130,701
TOTAL LIABILITIES	2,655,396	83,812	4,841	65,996	2,810,045
FUND BALANCES:					
Reserved:					
Reserved for encumbrances	36,500	-	-	-	36,500
Reserved for capital outlay	-	552,014	-	-	552,014
Reserved for debt service	-	-	229,423	470,780	700,203
Reserved for inventory	-	-	-	1,382	1,382

	General fund	2002 Capital projects	2006 Refunding debt service	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES (Concluded):					
Unreserved:					
Designated for retirement and sick leave payable	$ 577,160	$ -	$ -	$ -	$ 577,160
Designated for bus purchase	87,000	-	-	-	87,000
Designated for capital outlay	500,000	-	-	-	500,000
Designated for subsequent year expenditures	1,076,291	-	-	14,517	1,090,808
Undesignated	2,849,743	-	-	24,477	2,874,220
TOTAL FUND BALANCES	5,126,694	552,014	229,423	511,156	6,419,287
TOTAL LIABILITIES AND AND FUND BALANCES	$ 7,782,090	$ 635,826	$ 234,264	$ 577,152	$ 9,229,332

Total governmental fund balances		$ 6,419,287
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	$ 61,619,794	
Accumulated depreciation is	(12,680,389)	
		48,939,405
Deferred charges, net of amortization		729,642
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
State school bond loan fund payable		(7,576,332)
State school loan revolving fund payable		(767,742)
Long-term general obligations		(38,943,166)
Land contract payable		(345,000)
Long-term limited obligations		(162,788)
Compensated absences		(557,644)
Accrued interest is not included as a liability in government funds		(300,935)
Deferred revenue expected to be collected after September 1, 2007:		
Property taxes at June 30, 2007		60,415
Total net assets of governmental activities		$ 7,495,142

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General fund	2002 Capital projects	2006 Refunding debt service	Other nonmajor governmental funds	Total governmental funds
REVENUES:					
Local sources:					
Property taxes	$ 2,113,132	$ -	$ 478,148	$ 3,044,892	$ 5,636,172
Other local sources	413,628	127,489	-	758,468	1,299,585
Total local sources	2,526,760	127,489	478,148	3,803,360	6,935,757
Intermediate sources	1,379,374	-	-	28,128	1,407,502
State sources	20,470,539	-	-	51,842	20,522,381
Federal sources	576,080	-	-	317,344	893,424
Total revenues	24,952,753	127,489	478,148	4,200,674	29,759,064
EXPENDITURES:					
Current:					
Instruction	14,285,132	-	-	-	14,285,132
Support services	9,507,143	-	-	-	9,507,143
Community services	206,922	-	-	-	206,922
Facilities acquisition	42,824	-	-	-	42,824
Food service	-	-	-	977,986	977,986
Athletics	-	-	-	611,945	611,945
Public library	-	-	-	44,653	44,653
Capital outlay	-	1,732,825	-	-	1,732,825
Debt service:					
Bond issue costs	-	-	137,364	-	137,364
Principal retirement	-	-	45,000	1,785,000	1,830,000
Interest and fiscal charges	-	-	203,726	1,711,235	1,914,961
Total expenditures	24,042,021	1,732,825	386,090	5,130,819	31,291,755
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	910,732	(1,605,336)	92,058	(930,145)	(1,532,691)
OTHER FINANCING SOURCES (USES):					
Proceeds from refunding debt	-	-	10,000,000	-	10,000,000
Bond discount	-	-	(91,098)	-	(91,098)
Payments to excrow agent	-	-	(9,771,537)	-	(9,771,537)
Proceeds from school bond loan fund	-	-	-	466,120	466,120
Proceeds from sale of school property/insurance	89,823	-	-	-	89,823
Proceeds from land contract	-	345,000	-	-	345,000
Operating transfers in	-	-	-	485,000	485,000
Operating transfers out	(485,000)	-	-	-	(485,000)
Total other financing sources (uses)	(395,177)	345,000	137,365	951,120	1,038,308
NET CHANGE IN FUND BALANCES	515,555	(1,260,336)	229,423	20,975	(494,383)
FUND BALANCES, beginning of year	4,611,139	1,812,350	-	490,181	6,913,670
FUND BALANCES, end of year	$ 5,126,694	$ 552,014	$ 229,423	$ 511,156	$ 6,419,287

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net change in fund balances total governmental funds	$ (494,383)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities.	
These costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(1,732,405)
Capital outlay	2,120,714
Proceeds from sale of school property/insurance	(89,823)
Gain on the sale of school equipment	22,151
Accrued interest on bonds is recorded in the statement of activities	
when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	312,282
Accrued interest payable, end of the year	(300,935)
Proceeds and repayments of principal on long-term debt are other financing	
sources and expenditures in the governmental funds, but not in the statement of activities	
(where they are additions and reductions of liabilities)	
Principal repayment on general obligation bonds	11,175,000
Proceeds from debt refunding	(10,000,000)
Proceeds from school loan revolving fund	(466,120)
Proceeds from land contract	(345,000)
Discount on debt issuance	91,098
Amortization on bond discount	(4,141)
Bond issuance costs	137,364
Current year's amortization of bond issuance costs	(46,145)
Long-term interest on school bond loan fund (accrued)	(343,318)
Long-term interest on school loan revolving fund (accrued)	(29,206)
Deferred amount on 2006 bond refunding	426,537
Amortization of deferred amount on bond refunding	(26,659)
Revenue is recorded on the accrual method in the statement of activities; in the	
governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred revenue, beginning of the year	(50,677)
Deferred revenue, end of the year	60,415
Compensated absences are reported on the accrual method in the statement of activities,	
and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and severance benefits, beginning of the year	647,102
Accrued compensated absences and severance benefits, end of the year	(557,644)
Change in net assets of governmental activities	$ 506,207

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	Agency fund	Trust funds
ASSETS		
Cash	$ 234,269	$ 36,089
Loans receivable	-	7,714
	$ 234,269	$ 43,803
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups	$ 234,269	$ -
Due to employees	-	4,274
	234,269	4,274
Net assets:		
Held in trust for:		
Individuals and organizations	-	39,529
	$ 234,269	$ 43,803

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2007

	Trust funds
Additions:	
Interest earnings	$ 698
Deductions:	
Office supplies	-
Change in net assets	698
Net assets, beginning of year	38,831
Net assets, end of year	$ 39,529

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Thornapple Kellogg Schools ("the District") was organized under the School Code of the State of Michigan and services a population of approximately 3,000 students. The District is governed by the Thornapple Kellogg Schools Board of Education (the "Board"), consisting of seven members elected to four-year terms. The Board has decision-making authority, the power to designate management and responsibility for the primary accountability for fiscal matters.

The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services.

The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and No. 39.

The financial statements of Thornapple Kellogg Schools have been prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The district-wide statement of net assets is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. As of June 30, 2007, the District did not have restricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted State Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues.*

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

The district-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This district-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are used to account for the District's general activity. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

Major governmental funds:

The G*eneral Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. It is considered a major fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-wide and Fund Financial Statements (Concluded)

The *2002 Capital Projects Fund* accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects. It is considered a major fund.

The *2006 Refunding Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2002 Capital Projects Fund. The project for which the 2002 capital project bonds were issued was considered complete on September 1, 2005.

Non-major governmental funds:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service, athletic and public library activities in the special revenue funds. None of the special revenue funds are considered major funds.

The *Debt Service Funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The 2002 and 2004 debt service funds are not considered major funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent for individuals or school-related organizations. Fiduciary funds are not included in the District's financial statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity. The two agency funds are comprised of the student activity fund and the flexible spending fund.

The *Private Purpose Trust Fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. The activity of the student loan program are reported here.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The district-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

For the year ended June 30, 2007, approximately $382,000 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

E. Other Accounting Policies

1. Investments

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

1. Investments (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes for the District are levied December 1 by the townships of Leighton, Wayland, Carlton, Irving, Orangeville, Rutland, Thornapple, Yankee Springs, Campbell, Bowne, and Caledonia. The taxes are then collected by each governmental unit and remitted to the District. The counties of Allegan, Barry, Ionia, and Kent, through their delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30.

Taxes uncollected are written off after three years from the date of the levy, unless material in amount.

Section 1211(1) of 1993 PA 32 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill “Local Enhancement Millage” which must be shared between all local districts in each respective county intermediate district.

Thornapple Kellogg Schools’ voters approved an operating millage extension of the 18 mill non-homestead property tax which was levied in the District for 2007.

The District levied 7.0 mills in 2007 for debt service applied on all taxable property in the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

2. Property Taxes (Concluded)

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill “School Operating” tax. It is not exempt from the 6 mill “State Education” tax, any voted “Local Enhancement Millage”, or any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

3. Inventories

Inventories are valued at cost (first-in, first-out). Inventories of the food service fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

4. Interfund Activity

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

5. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets life are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10 - 20 years
Buildings and additions	40 - 50 years
Vehicles	5 - 10 years
Furniture and other equipment	3 - 10 years

6. Compensated Absences

Severance pay, accumulated sick leave, and early retirement incentive at June 30, 2007, has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. The liability for compensated absences includes salary related payments. In the fund financial statements only the matured liability is reported. The total liability is recorded in the district-wide financial statements.

7. Net Asset Report

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of $3,130,096 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of $1,140,046 has been included in the calculation of restricted and unrestricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

E. Other Accounting Policies (Concluded)

8. Long-term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

State of Michigan 1968 PA 2 (the Uniform Budgetary and Accounting Act) requires that the general fund of a school district is under budgetary control and that both budgeted and actual financial results do not incur a deficit. Thornapple Kellogg Schools has also adopted budgets for its special revenue funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. Violations, if any, are noted in the required supplementary information section. All appropriations lapse at the end of the fiscal year.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting (Concluded)

Thornapple Kellogg Schools utilize the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Director of Finance and Operations to establish proposed operating budgets for the fiscal year commencing in the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original general and special revenue funds budgets were amended during the year in compliance with State of Michigan 1968 PA 2 (the Uniform Budgetary and Accounting Act).
- Budgets for the general and special revenue funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2007, the District had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	$ 1,730	0.0027	AAAm	0.3%
MILAF External Investment pool -MIMAX	621,625	0.0027	AAAm	99.7%
Total fair value	$ 623,355			100.0%
Portfolio weighted average maturity		0.0027		

1 day maturity equals 0.0027, one year equals 1.00

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, $4,549,629 of the District's bank balance of $4,949,629 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of $270,358	$ 4,684,675
Investments	623,355
	$ 5,308,030

The above amounts are reported in the financial statements as follows:

Cash - agency fund	$ 270,358
Cash - district wide	4,401,846
Restricted cash - capital projects	635,826
	$ 5,308,030

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental activities:				
Capital assets, not depreciated:				
Land	$ 745,000	$ 800,846	$ -	$ 1,545,846
Capital assets, being depreciated:				
Land improvements	1,902,871	68,598	14,103	1,957,366
Buildings and additions	53,648,207	136,440	-	53,784,647
Furniture and equipment	1,978,112	981,457	15,449	2,944,120
Vehicles	1,430,317	133,373	175,875	1,387,815
Total being depreciated	58,959,507	1,319,868	205,427	60,073,948
Accumulated depreciation:				
Land improvements	467,200	94,546	10,612	551,134
Buildings and additions	8,682,232	994,532	-	9,676,764
Furniture and equipment	819,896	579,983	15,449	1,384,430
Vehicles	1,116,413	63,344	111,696	1,068,061
Total accumulated depreciation	11,085,741	1,732,405	137,757	12,680,389
Net capital assets	$ 48,618,766	$ 388,309	$ 67,670	$ 48,939,405

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation for the fiscal year ended June 30, 2007 was allocated to the following programs:

Instruction	$ 1,332,262
Support services	229,628
Community services	13,547
Food services	38,016
Athletics	118,952
	$ 1,732,405

NOTE 5 – DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at June 30, 2007 consist of the following:

Other governmental units:	
State aid	$ 3,309,599
Other	228,326
	$ 3,537,925

NOTE 6 - NOTE PAYABLE

At June 30, 2007, the District had no balance on the state aid note. Activity for the year ended June 30, 2007 is as follows:

Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
$ 1,500,000	$ -	$ 1,500,000	$ -

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Long-term debts and other obligations currently outstanding are as follows:

2002 general obligation bonds due in annual installments of $600,000 to $1,025,000 through May 2022 with interest from 3.150% to 5.000%	$ 11,770,000
2004 refunding term bonds due in annual installments of $1,120,000 to $1,235,000 through May 2022 with interest from 2.750% to 5.000%	17,705,000
2006 refunding term bonds due in annual installments of $30,000 to $1,570,000 through May 2028 with interest from 4.000% to 4.250%	9,955,000
Less: deferred amount on bond refunding (net)	(399,877)
Less: discount on 2006 bond issuance (net)	(86,957)
Total general obligation debt	38,943,166
Limited obligation (Durant) bonds due in annual installments of $22,104 to $67,857 through May 2013 with an interest rate of 4.76%. Certain future state aid payments have been pledged as security.	162,788
Total bonded debt	39,105,954
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest	7,576,332
Borrowings from the State of Michigan under the School Loan Revolving Fund, including interest	767,742
Land contract due December 31, 2007 with interest at 5%	345,000
Obligation under contract for compensated absences	302,144
Obligation under contract for severance benefits	255,500
Total general long-term debt	$ 48,352,672

NOTE 7 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding as of June 30, 2007, including interest of $18,842,874 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	$ 2,210,000	$ 1,723,802	$ 3,933,802
2009	1,887,104	1,675,525	3,562,629
2010	1,868,156	1,615,823	3,483,979
2011	1,874,259	1,549,396	3,423,655
2012	1,875,412	1,479,092	3,354,504
2013-2017	10,367,856	6,041,546	16,409,402
2018-2022	10,840,001	3,440,875	14,280,876
2023-2027	7,445,000	1,251,660	8,696,660
2028	1,570,000	65,155	1,635,155
Total	39,937,788	18,842,874	58,780,662
Due to school bond loan fund	7,576,332		7,576,332
Due to school loan revolving fund	767,742		767,742
Deferred amount on bond refunding	(399,877)		(399,877)
Unamortized premium on bond issuance	(86,957)		(86,957)
Accumulated compensated absences	302,144		302,144
Accumulated severance benefits	255,500		255,500
	$ 48,352,672	$ 18,842,874	$ 67,195,546

An amount of approximately $700,000 is available in the debt service funds to service the general obligation debt.

Borrowing from the State of Michigan – The school bond loans payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board, Interest rates ranging from 4.685% - 5.049% for the School Revolving Fund notes and 4.500% - 4.875% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2007. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7.00 mills. The school district is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.

NOTE 7 - LONG-TERM DEBT (Continued)

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2007:

	Compensated absences/early retirement and severance benefits	General obligation bonds	Land contract
Balance July 1, 2006	$ 647,102	$ 40,605,000	$ -
Additions	105,118	10,000,000	345,000
Deletions	(194,576)	(11,661,834)	-
Balance June 30, 2007	557,644	38,943,166	345,000
Less current portion	(46,470)	(1,865,000)	(345,000)
Total due after one year	$ 511,174	$ 37,078,166	$ -

	Limited obligation bonds	School bond loan fund	School loan revolving fund	Total
Balance July 1, 2006	$ 162,788	$ 7,233,014	$ 272,416	$ 48,920,320
Additions	-	343,318	495,326	11,288,762
Deletions	-	-	-	(11,856,410)
Balance June 30, 2007	162,788	7,576,332	767,742	48,352,672
Less current portion	-	-	-	(2,256,470)
Total due after one year	$ 162,788	$ 7,576,332	$ 767,742	$ 46,096,202

On November 14, 2006, Thornapple Kellogg Schools issued general obligation bonds of $10,000,000 with an interest rate ranging from 4.000% to 4.150% to advance refund bonds with an interest rate of 5.000%. The bonds mature on May 1, 2028. The general obligation bonds were issued at a discount after paying issuance costs of $137,364 which includes the underwriters discount, the net proceeds were $9,771,537. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

NOTE 7 - LONG-TERM DEBT (Concluded)

As a result of the advance refunding, the District reduced its total debt service requirements by $766,000, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $492,000.

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2007 are as follows:

Receivable fund		Payable fund	
General	$ 6,200	General	$ 5,850
Special revenue	5,850	Special revenue	6,200
	$ 12,050		$ 12,050

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007, was 16.34% through September 2006 and 17.74% for October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were $2,251,484, $1,979,595 and $1,852,132, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement benefits or other post-employment benefits which is the responsibility of the State of Michigan.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is a member of the West Michigan Risk Management Trust (Trust), a self-insurance program with 26 districts pooling together to insure property, liability and auto exposures. Premiums from members of the Trust are arrived at through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to $250,000 and $1,368,500 respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A $1,000 per occurrence deductible for property losses is maintained to place the responsibility for small charges with the members of the Trust.

The District is a member of the West Michigan Workers’ Compensation Fund, a self-insurance program with 19 districts pooling together to insure workers’ compensation and employers’ liability exposures. The fund pays the first $400,000 of any workers’ compensation or employers’ liability loss out of a $2,338,245 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts.

Health and life insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - BOND COMPLIANCE

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2002 capital projects bond activity since inception:

	2002 Bond
Revenue and other financing sources	$ 25,197,767
Expenditures and transfers	$ 24,645,753

The above revenue amount includes net bond proceeds of $24,341,529.

NOTE 12 - OPERATING TRANSFERS

Operating transfers between funds during the year ended June 30, 2007 were as follows:

Fund	Operating transfers in	Operating transfers out
General	$ -	$ 485,000
Athletic	485,000	-
	$ 485,000	$ 485,000

The general fund transferred $485,000 to the athletic fund to subsidize operations.

NOTE 13 – SUBSEQUENT EVENT

On July 17, 2007, the District issued approximately $29 million of general obligation bonds for various building and equipment improvement throughout the District.

REQUIRED SUPPLEMENTARY INFORMATION

THORNAPPLE KELLOGG SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local sources:				
Property taxes	$ 2,166,831	$ 2,136,548	$ 2,113,132	$ (23,416)
Other local sources	356,050	337,650	413,628	75,978
Intermediate sources	1,232,290	1,347,566	1,379,374	31,808
State sources	19,557,101	20,355,211	20,470,539	115,328
Federal sources	587,772	576,564	576,080	(484)
Total revenues	23,900,044	24,753,539	24,952,753	199,214
EXPENDITURES:				
Current:				
Instruction	14,253,441	14,361,544	14,285,132	76,412
Support services:				
Pupil	1,640,044	1,625,734	1,543,763	81,971
Instructional staff services	1,164,319	1,147,400	1,154,830	(7,430)
General administration	434,165	418,687	390,076	28,611
School administration	1,288,003	1,259,879	1,233,517	26,362
Business	494,036	708,236	809,181	(100,945)
Operations and maintenance	2,601,414	2,646,357	2,606,084	40,273
Pupil transportation	1,806,879	1,854,472	1,747,991	106,481
Central services	25,100	27,100	21,701	5,399
Community services	256,774	227,775	206,922	20,853
Facilities acquisition	-	15,500	42,824	(27,324)
Total expenditures	23,964,175	24,292,684	24,042,021	250,663
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(64,131)	460,855	910,732	449,877
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(470,000)	(485,000)	(485,000)	-
Proceeds from sale of school property/insurance	-	-	89,823	89,823
Total other financing sources (uses)	(470,000)	(485,000)	(395,177)	89,823
NET CHANGE IN FUND BALANCE	(534,131)	(24,145)	515,555	539,700
FUND BALANCE, beginning of year	4,611,139	4,611,139	4,611,139	-
FUND BALANCE, end of year	$ 4,077,008	$ 4,586,994	$ 5,126,694	$ 539,700

ADDITIONAL INFORMATION

THORNAPPLE KELLOGG SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007

	Special revenue funds			Debt service funds		
	Food service	Athletics	Public Library	2002 Debt	2004 Debt	Total
ASSETS						
Cash	$ 2,680	$ 33,939	$ 3,067	$ 326,981	$ 139,821	$ 506,488
Taxes receivables	-	-	-	12,947	18,512	31,459
Due from other governmental units	14,624	-	5,804	-	-	20,428
Due from other funds	-	-	5,850	-	-	5,850
Inventories	12,927	-	-	-	-	12,927
TOTAL ASSETS	$ 30,231	$ 33,939	$ 14,721	$ 339,928	$ 158,333	$ 577,152
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 9,262	$ 2,730	$ -	$ -	$ -	$ 11,992
Due to other governmental units	293	909	465	11,120	15,789	28,576
Due to other funds	6,200	-	-	-	-	6,200
Accrued payroll and withholdings	1,154	3,583	1,979	-	-	6,716
Deferred revenue	11,940	-	-	183	389	12,512
Total liabilities	28,849	7,222	2,444	11,303	16,178	65,996
Fund balances:						
Reserved for debt service	-	-	-	328,625	142,155	470,780
Reserved for inventory	1,382	-	-	-	-	1,382
Designated for subsequent year's expenditures	-	10,838	3,679	-	-	14,517
Unreserved, undesignated	-	15,879	8,598	-	-	24,477
Total fund balances	1,382	26,717	12,277	328,625	142,155	511,156
TOTAL LIABILITIES AND FUND BALANCES	$ 30,231	$ 33,939	$ 14,721	$ 339,928	$ 158,333	$ 577,152

THORNAPPLE KELLOGG SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007

	Special revenue funds			Debt service funds		
	Food service	Athletics	Public Library	2002 Debt	2004 Debt	Total
REVENUES:						
Local sources	$ 615,299	$ 133,361	$ 9,808	$ 1,261,061	$ 1,783,831	$ 3,803,360
Intermediate sources	-	-	28,128	-	-	28,128
State sources	40,188	-	11,654	-	-	51,842
Federal sources	317,344	-	-	-	-	317,344
Total revenues	972,831	133,361	49,590	1,261,061	1,783,831	4,200,674
EXPENDITURES:						
Food service	977,986	-	-	-	-	977,986
Athletics	-	611,945	-	-	-	611,945
Public library	-	-	44,653	-	-	44,653
Debt service:						-
Principal retirement	-	-	-	600,000	1,185,000	1,785,000
Interest and fiscal charges	-	-	-	857,882	853,353	1,711,235
Total expenditures	977,986	611,945	44,653	1,457,882	2,038,353	5,130,819
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,155)	(478,584)	4,937	(196,821)	(254,522)	(930,145)
OTHER FINANCING SOURCES:						
Proceeds from school bond loan fund	-	-	-	298,553	167,567	466,120
Interfund transfers	-	485,000	-	-	-	485,000
Total other financing sources	-	485,000	-	298,553	167,567	951,120
NET CHANGE IN FUND BALANCES	(5,155)	6,416	4,937	101,732	(86,955)	20,975
FUND BALANCES, beginning of year	6,537	20,301	7,340	226,893	229,110	490,181
FUND BALANCES, end of year	$ 1,382	$ 26,717	$ 12,277	$ 328,625	$ 142,155	$ 511,156

THORNAPPLE KELLOGG SCHOOLS
FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	2007			2006
	Final budget	Actual	Variance positive (negative)	Actual
REVENUES:				
Local sources:				
Food sales	$ 613,751	$ 614,533	$ 782	$ 604,291
Interest on deposits	650	766	116	310
State sources	40,000	40,188	188	51,857
Federal sources	285,000	317,344	32,344	298,107
Total revenues	939,401	972,831	33,430	954,565
EXPENDITURES:				
Salaries and wages	277,600	285,898	(8,298)	270,837
Employee benefits	152,457	147,962	4,495	135,281
Purchased services	120,850	127,158	(6,308)	132,876
Food costs	340,000	382,667	(42,667)	384,689
Supplies, materials and other	43,650	34,301	9,349	29,719
Total expenditures	934,557	977,986	(43,429)	953,402
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,844	(5,155)	(9,999)	1,163
FUND BALANCE, beginning of year	6,537	6,537	-	5,374
FUND BALANCE, end of year	$ 11,381	$ 1,382	$ (9,999)	$ 6,537

THORNAPPLE KELLOGG SCHOOLS
ATHLETICS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	2007			2006
	Final budget	Actual	Variance positive (negative)	Actual
REVENUES:				
Local sources:				
Sales and admissions	$ 120,110	$ 120,899	$ 789	$ 158,896
Donations	3,000	3,300	300	15,392
Interest on deposits	600	669	69	181
Miscellaneous	8,135	8,493	358	50
Total revenues	131,845	133,361	1,516	174,519
EXPENDITURES:				
Salaries and wages	283,855	279,218	4,637	353,769
Employee benefits	100,283	97,045	3,238	112,021
Purchased services	162,276	156,914	5,362	60,783
Supplies, materials and other	87,310	78,768	8,542	102,421
Total expenditures	633,724	611,945	21,779	628,994
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(501,879)	(478,584)	23,295	(454,475)
OTHER FINANCING SOURCES:				
Operating transfer in from general fund	485,000	485,000	-	450,000
NET CHANGE IN FUND BALANCE	(16,879)	6,416	23,295	(4,475)
FUND BALANCE, beginning of year	20,301	20,301	-	24,776
FUND BALANCE, end of year	$ 3,422	$ 26,717	$ 23,295	$ 20,301

THORNAPPLE KELLOGG SCHOOLS
PUBLIC LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	2007			2006
	Final budget	Actual	Variance positive (negative)	Actual
REVENUES:				
Local sources:				
Township appropriated income	$ 2,231	$ 2,231	$ -	$ 2,256
Interest on deposits	170	184	14	84
Miscellaneous	7,165	7,393	228	7,077
Intermediate sources	27,995	28,128	133	30,423
State sources	5,850	11,654	5,804	-
Total revenues	43,411	49,590	6,179	39,840
EXPENDITURES:				
Salaries and wages	20,350	18,866	1,484	20,572
Employee benefits	4,659	4,299	360	3,484
Purchased services	17,025	17,304	(279)	17,403
Supplies, materials and other	5,135	4,184	951	4,388
Total expenditures	47,169	44,653	2,516	45,847
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,758)	4,937	8,695	(6,007)
FUND BALANCE, beginning of year	7,340	7,340	-	13,347
FUND BALANCE, end of year	$ 3,582	$ 12,277	$ 8,695	$ 7,340

THORNAPPLE KELLOGG SCHOOLS
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	Salaries	Employee benefits	Purchased services	Supplies, materials and other	Total actual expenditures	2006
EXPENDITURES						
Instruction:						
Basic programs:						
Elementary	$ 3,292,358	$ 1,756,570	$ 74,746	$ 110,809	$ 5,234,483	$ 4,716,288
Middle school	1,847,141	939,655	62,542	181,157	3,030,495	2,763,917
High school	2,518,336	1,246,824	64,071	188,065	4,017,296	3,540,651
Readiness	27,558	10,121	234	9,256	47,169	44,724
Added needs:						
Special education	804,039	456,805	23,377	233,749	1,517,970	1,332,753
Compensatory education	241,130	125,775	3,500	-	370,405	350,647
Vocational education	37,919	14,361	-	15,034	67,314	16,002
Total instruction	8,768,481	4,550,111	228,470	738,070	14,285,132	12,764,982
Support services						
Pupil:						
Attendance services	52,439	33,947	-	147	86,533	81,548
Guidance services	465,047	225,232	-	508	690,787	629,577
Occupational therapists services	4,483	1,132	150	23,389	29,154	28,874
Psychological services	-	-	-	104,034	104,034	102,260
Speech pathology and audiology	-	-	23,222	175,101	198,323	165,031
Social work services	-	16,886	124	173,139	190,149	179,829
Teacher consultant	-	-	6,304	123,696	130,000	100,648
Other pupil services	74,176	40,607	-	-	114,783	102,755
Instructional staff services:						
Improvement of instruction	165,696	50,038	52,896	6,772	275,402	248,666
Library	230,126	134,929	3,462	20,988	389,505	360,715
Computer assisted instruction	145,964	81,521	57,614	45,659	330,758	284,065
Special education administration	102,432	48,836	2,734	1,435	155,437	137,178
Academic student testing	-	-	3,728	-	3,728	3,000
General administration:						
Board of education	-	-	98,350	12,186	110,536	74,055
Executive administration	169,219	93,332	7,222	9,767	279,540	269,959
School administration	729,918	358,714	122,301	22,584	1,233,517	1,166,682
Business:						
Fiscal services	212,714	132,698	28,510	3,682	377,604	390,071
Internal services	12,922	5,262	-	2,921	21,105	19,117
Other business services	-	-	30,139	380,333	410,472	139,253

THORNAPPLE KELLOGG SCHOOLS
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2007
(with comparative totals for the year ended June 30, 2006)

	Salaries	Employee benefits	Purchased services	Supplies, materials and other	Total actual expenditures	2006
EXPENDITURES (Concluded):						
Operation and maintenance:						
Operation and maintenance	$ 880,202	$ 551,631	$ 367,152	$ 794,984	$ 2,593,969	$ 2,312,903
Security services	-	-	12,115	-	12,115	10,901
Pupil transportation	474,976	355,707	25,758	891,550	1,747,991	1,843,457
Central services:						
Personnel services	-	-	21,701	-	21,701	2,462
Total supporting services	3,720,314	2,130,472	863,482	2,792,875	9,507,143	8,653,006
Community services:						
Community services direction	25,570	13,457	-	81	39,108	40,847
Community recreation	24,257	3,347	4,914	5,454	37,972	38,475
Custody and care of children	70,270	17,338	758	4,567	92,933	100,461
Drivers education	27,563	3,312	3,885	2,149	36,909	34,943
Total community services	147,660	37,454	9,557	12,251	206,922	214,726
Facilities acquisition	-	-	-	42,824	42,824	-
Total expenditures	12,636,455	6,718,037	1,101,509	3,586,020	24,042,021	21,632,714
OTHER FINANCING USES:						
Operating transfers out to athletics fund	-	-	-	485,000	485,000	450,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	$ 12,636,455	$ 6,718,037	$ 1,101,509	$ 4,071,020	$ 24,527,021	$ 22,082,714

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2007

$24,115,000 Bonds issued November 6, 2002:

Principal due May 1,	Interest due May 1,	Interest due November 1,	Debt service requirement for fiscal year June 30,	Debt service requirement for fiscal year Amount
$ 600,000	$ 280,438	$ 280,438	2008	$ 1,160,876
600,000	270,988	270,988	2009	1,141,976
600,000	260,787	260,787	2010	1,121,574
600,000	249,987	249,987	2011	1,099,974
600,000	238,887	238,887	2012	1,077,774
690,000	227,487	227,487	2013	1,144,974
795,000	208,513	208,513	2014	1,212,026
900,000	186,650	186,650	2015	1,273,300
910,000	161,900	161,900	2016	1,233,800
920,000	136,875	136,875	2017	1,193,750
925,000	113,875	113,875	2018	1,152,750
925,000	90,750	90,750	2019	1,106,500
925,000	67,625	67,625	2020	1,060,250
1,025,000	44,500	44,500	2021	1,114,000
755,000	18,875	18,875	2022	792,750
$ 11,770,000	$ 2,558,137	$ 2,558,137		$ 16,886,274

The above bonds have interest rates from 3.150% to 5.000%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition and or additions to, and partially remodeling, furnishing and re-furnishing, equipping school facilities; acquiring, installing and equipping educational technology for school facilities; erecting, furnishing and equipping an addition to and utility vehicle structure for the maintenance building; acquiring school buses; constructing, developing and improving outdoor physical education/athletic facilities, including tennis courts; acquiring, developing and improving sites; and to pay a portion of the costs of issuing the bonds.

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2007

$20,230,000 Bonds issued May 25, 2004:

	Interest due		Debt service requirement for fiscal year	
Principal due May 1,	May 1,	November 1,	June 30,	Amount
$ 1,235,000	$ 379,076	$ 379,076	2008	$ 1,993,152
1,235,000	362,094	362,094	2009	1,959,188
1,215,000	343,569	343,569	2010	1,902,138
1,220,000	322,307	322,307	2011	1,864,614
1,215,000	299,432	299,432	2012	1,813,864
1,205,000	269,057	269,057	2013	1,743,114
1,190,000	245,710	245,710	2014	1,681,420
1,175,000	221,613	221,613	2015	1,618,226
1,165,000	197,525	197,525	2016	1,560,050
1,160,000	168,400	168,400	2017	1,496,800
1,155,000	139,400	139,400	2018	1,433,800
1,145,000	110,525	110,525	2019	1,366,050
1,140,000	81,900	81,900	2020	1,303,800
1,130,000	56,250	56,250	2021	1,242,500
1,120,000	28,000	28,000	2022	1,176,000
$ 17,705,000	$ 3,224,858	$ 3,224,858		$ 24,154,716

The above bonds have interest rates from 2.750% to 5.000%. The bond proceeds were used to refinance the 1996 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2007

$10,000,000 Bonds issued November 14, 2006:

	Interest due		Debt service requirement for fiscal year	
Principal due May 1,	May 1,	November 1,	June 30,	Amount
$ 30,000	$ 202,388	$ 202,388	2008	$ 434,776
30,000	201,788	201,788	2009	433,576
30,000	201,187	201,187	2010	432,374
30,000	200,587	200,587	2011	431,174
35,000	199,987	199,987	2012	434,974
35,000	199,287	199,287	2013	433,574
35,000	198,588	198,588	2014	432,176
40,000	197,888	197,888	2015	435,776
40,000	197,088	197,088	2016	434,176
40,000	196,288	196,288	2017	432,576
40,000	195,487	195,487	2018	430,974
45,000	194,687	194,687	2019	434,374
45,000	193,787	193,787	2020	432,574
50,000	192,887	192,887	2021	435,774
415,000	191,888	191,888	2022	798,776
1,415,000	183,588	183,588	2023	1,782,176
1,455,000	155,287	155,287	2024	1,765,574
1,490,000	126,187	126,187	2025	1,742,374
1,525,000	96,015	96,015	2026	1,717,030
1,560,000	64,752	64,752	2027	1,689,504
1,570,000	32,579	32,579	2028	1,635,158
$ 9,955,000	$ 3,622,220	$ 3,622,220		$ 17,199,440

The above bonds have interest rates from 4.000% to 4.125%. The bond proceeds were used to refinance a portion of the 2002 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2007

$253,744 Durant Bond – issued on November 24, 1998

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year June 30,	Amount
$ -	$ -	2008	$ -
22,104	5,787	2009	27,891
23,156	4,735	2010	27,891
24,259	3,633	2011	27,892
25,412	2,477	2012	27,889
67,857	15,811	2013	83,668
$ 162,788	$ 32,443		$ 195,231

This bond is not subject to redemption prior to maturity by the District and the District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The 4.76% interest rates payable on this bond may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the District (the “State Aid Payments”). The District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority’s depository.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL BOND LOAN FUND
JUNE 30, 2007

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
Loan balance at June 30, 2002	$ -	$ -	$ 4,073,932
2003	69,011	139,234	208,245
2004	1,544,886	142,529	1,687,415
2005	785,924	193,798	979,722
2006	-	283,700	283,700
2007	-	343,318	343,318
Totals June 30, 2007	$ 2,399,821	$ 1,102,579	$ 7,576,332

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL LOAN REVOLVING FUND
JUNE 30, 2007

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
Loan balance at June 30, 2005	$ -	$ -	$ -
2006	264,155	8,261	272,416
2007	466,120	29,206	495,326
Totals June 30, 2007	$ 730,275	$ 37,467	$ 767,742

THORNAPPLE KELLOGG SCHOOLS

ADDITIONAL REPORTS REQUIRED BY

OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2007

C O N T E N T S

Maner, Costerisan & Ellis, P.C.
Certified Public Accountants

Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

October 4, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools as of and for the year ended June 30, 2007, which collectively comprise Thornapple Kellogg Schools' basic financial statements and have issued our report thereon dated October 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Thornapple Kellogg Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Thornapple Kellogg Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Thornapple Kellogg Schools' internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thornapple Kellogg Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Thornapple Kellogg Schools in a separate letter dated October 4, 2007.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan & Ellis, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

October 4, 2007

Compliance

We have audited the compliance of Thornapple Kellogg Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. Thornapple Kellogg Schools' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Thornapple Kellogg Schools' management. Our responsibility is to express an opinion on Thornapple Kellogg Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in G*overnment Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133*, Audits of States, Local Governments and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Thornapple Kellogg Schools compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Thornapple Kellogg Schools' compliance with those requirements.

In our opinion, Thornapple Kellogg Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

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Internal Control Over Compliance

The management of Thornapple Kellogg Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Thornapple Kellogg Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Thornapple Kellogg Schools' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

To the Board of Education
Thornapple Kellogg Schools

October 4, 2007

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Thornapple Kellogg Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated October 4, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Thornapple Kellogg Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan & Ellis, P.C.

Certified Public Accountants

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2006	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2007
U.S. Department of Agriculture:								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Breakfast	10.553	061970	$ 31,193	$ 1,324	$ 28,237	$ 4,280	$ 2,956	$ -
		071970	31,701	-	-	30,525	31,701	1,176
			62,894	1,324	28,237	34,805	34,657	1,176
National School Lunch	10.555	061950	61,806	4,500	54,326	11,980	7,480	-
		071950	57,627	-	-	52,845	57,627	4,782
		061960	150,381	1,840	131,339	20,882	19,042	-
		071960	153,367	-	-	151,653	153,367	1,714
			423,181	6,340	185,665	237,360	237,516	6,496
Total Child Nutrition Cluster			486,075	7,664	213,902	272,165	272,173	7,672
Commodities: Food Distribution								
Entitlement	10.550		44,567	-	-	44,567	44,567	-
Bonus	10.550		604	-	-	604	604	-
			45,171	-	-	45,171	45,171	-
Total U.S. Department of Agriculture			531,246	7,664	213,902	317,336	317,344	7,672

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2006	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2007
U.S. Department of Education:								
Passed through Kent Intermediate School District:								
Special Education Cluster:								
Individuals with Disabilities Education Act - Flow Through	84.027	060450/0506	$ 354,336	$ 97,039	$ 354,336	$ 97,039	$ -	$ -
		070450/0607	353,099	-	-	212,509	353,099	140,590
			707,435	97,039	354,336	309,548	353,099	140,590
Individuals with Disabilities Education Act - Transition	84.027A	070490TS	1,666	-	-	1,666	1,666	-
Individuals with Disabilities Education Act - Preschool	84.173	060460/0506	18,206	6,267	18,206	6,267	-	-
		070460/0607	17,666	-	-	11,006	17,666	6,660
			35,872	6,267	18,206	17,273	17,666	6,660
Total special education cluster			744,973	103,306	372,542	328,487	372,431	147,250
Safe and Drug Free Schools	84.186A	072860/0607	5,211	-	-	5,211	5,211	-
Total passed through Kent Intermediate School District			750,184	103,306	372,542	333,698	377,642	147,250

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2006	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2007
U.S. Department of Education (Concluded):								
Passed through the Michigan Department of Education :								
Title I	84.010	071530/0607	$ 110,685	$ -	$ -	$110,685	$ 110,685	$ -
Title V	84.298	070250/0607	598	-	-	598	598	-
Title II Part D	84.318	074290/0607	1,047	-	-	1,047	1,047	-
Title II Part A	84.367	070520/0607	84,815	-	-	84,815	84,815	-
Hurricane Katrina Relief	84.938	064120/1	644	470	470	644	174	-
Total passed through Michigan Department of Education			197,789	470	470	197,789	197,319	
Total U.S. Department of Education			947,973	103,776	373,012	531,487	574,961	147,250
U.S. Department of Health and Human Services:								
Passed through Kent Intermediate School District:								
Medicaid Outreach	93.778	2005-06	869	869	869	869	-	-
		2006-07	1,119	-	-	-	1,119	1,119
Total U.S. Department of Health and Human Services			1,988	869	869	869	1,119	1,119
TOTAL FEDERAL FINANCIAL ASSISTANCE			$1,481,207	$112,309	$ 587,783	$849,692	$ 893,424	$156,041

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Thornapple Kellogg Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.

2. The special education cluster (CFDA # 84.027, #84.027A and #84.173) was audited as a major program, representing 42% of expenditures.

3. The threshold for distinguishing Type A and Type B programs was $300,000.

4. Management has utilized the Grant Section Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.

5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	$	576,080
Special revenue fund		317,344
	$	893,424

6. Program clusters contained within the schedule are as follows:

   Child nutrition cluster consists of CFDA #10.553 and #10.555.

   Special education cluster consists of CFDA #84.027, #84.027A and #84.173.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	*Unqualified*			
➢ Material weakness(es) identified:		Yes	X	No
➢ Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:

➢ Material weakness(es) identified:		Yes	X	No
➢ Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported
Type of auditors' report issued on compliance for major programs:	*Unqualified*			
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?		Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.027A and 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B programs:	$300,000			
Auditee qualified as low-risk auditee?	X	Yes		No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

There were no audit findings in the prior two years.

Maner, Costerisan & Ellis, P.C.
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October 4, 2007

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

In planning and performing our audit of the financial statements of Thornapple Kellogg Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Thornapple Kellogg School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Thornapple Kellogg School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Thornapple Kellogg School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 4, 2007 on the financial statements of Thornapple Kellogg Schools. Our comments are summarized as follows:

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Strengthen Internal Control over Athletic Receipts

During our audit we noted certain areas to strengthen athletic gate receipts. First, we recommend the athletic director account for the numerical sequence of gate tickets prior to being given to the volunteers. Any unused tickets should be given back to the director. In addition, we recommend the "used" portion of the ticket stubs be forwarded directly to the director. The director should estimate the nightly revenue and compare his/her calculation to the deposit slip. Any variation should be investigated immediately.

Also, the gate receipts are stored over night in a secure location. The following day, the receipts are counted and deposited in the bank. We recommend either the receipts are counted with two people present at night before they are stored, or two people are present when the receipts are counted the following day.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of $25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally $25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally $25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally $5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally $25,000 or less, and;
- Indicate if your organization has terminated (is no longer in business).

IRS 403(b) Final Regulations

Intent

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

Effective Date

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

Written Plan Document

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This report is intended solely for the information and use of Thornapple Kellogg Schools, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan & Ellis, P.C.

Maner, Costerisan & Ellis, P.C.
Certified Public Accountants

Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

October 4, 2007

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

We have audited the financial statements of Thornapple Kellogg Schools for the year ended June 30, 2007, and have issued our report thereon dated October 4, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Thornapple Kellogg Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Thornapple Kellogg Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Thornapple Kellogg Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Thornapple Kellogg Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Thornapple Kellogg Schools' compliance with those requirements.

544 Cherbourg Drive • Suite 200 • Lansing, Michigan 48917-5010 • (517) 323-7500 • Fax (517) 323-6346 • www.mcecpa.com

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Thornapple Kellogg Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Thornapple Kellogg Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the functional allocation of expenses is based on management's estimate use of resources. We evaluated the key factors and assumptions used to develop the functional allocation of expenses in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Thornapple Kellogg Schools financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Thornapple Kellogg Schools either individually or in the aggregate, indicate matters that could have a significant effect on the Thornapple Kellogg Schools financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. <u>Consultations with Other Independent Accountants</u>

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. <u>Issues Discussed Prior to Retention of Independent Auditors</u>

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Thornapple Kellogg Schools auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. <u>Difficulties Encountered in Performing the Audit</u>

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the authority, Board of Education and management of Thornapple Kellogg Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan & Ellis, P.C.